



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

October 11, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

SUMMARY OF THE JOINT-LABOR MANAGEMENT COMMITTEE FOR RETIREE HEALTH RECOMMENDATIONS

On June 18, 2007, your Board instructed the Chief Executive Officer (CEO) to review and prepare an analysis of the joint labor/management Committee on Retiree Health recommendations and to report back to your Board when the 2007-2008 Supplemental Budget will be discussed.

The joint labor/management committee interim status reports (Attachment A - SEIU Local 721 Retiree Health Committee report, and Attachment B - Employee Benefits Administration Committee [EBAC] Coalition of County Unions) were submitted to the Chief Executive Officer for review on July 26 and August 13, 2007. These recommendations are closely aligned and are a "first step" to mitigate the cost of future retiree health insurance:

- Support the establishment of a Trust pursuant to California Government Code sections §31694.3 and §31694.4, that is tax exempt either under Internal Revenue Code Section 115¹ or as an integral part of the County under the doctrine of intergovernmental tax immunity that will satisfy other statutory requirements and regulations, including any ordinance, and/or resolution required by the Board of Supervisors, subject to the provisions of a ratified collective bargaining agreement;

¹ This is the extent of the CCU recommendation on this item

- Support the concept of contracting with LACERA (Board of Investment/Board of Retirement) as trustee to invest and administer the Trust assets, as provided for in Government Code Section 31694.3;
- Support the establishment of a Board/CEO fiscal policy to pre-fund retiree health benefits;²
- Extend the term of the respective retiree health committees to September 30, 2009, to continue development of additional recommendations, subject to applicable meet and confer requirements; and
- During the 2009-2012 fringe benefit negotiations, consider proposals to establish a permanent labor-management committee to address mitigation of on-going costs of retiree health insurance (medical, dental/vision and life insurance also known as Other Post Employment Benefits or OPEB).

ANALYSIS AND REPORT

After reviewing the Joint-Labor Management Committee's recommendations, we feel it is appropriate and timely for your Board to consider taking action to establish a Trust pursuant to California Government Code, sections 316924.3 and 31694.4. We support the goal of pre-funding and recommend that, subject to the Board's discretion, funds be set aside and go toward the unfunded liability of Retiree Health Insurance. Pre-funding retiree health would allow the County to receive the investment return on monies set aside to pay for a portion of future retiree health costs.

We have directed counsel to begin preparation of a retiree health Trust Plan Document. The Trust Plan Document will contain the terms and conditions regarding the deposit of retiree health funds into a retiree health trust. The Trust Plan document is subject to the collective bargaining process, and we plan to continue labor-management committee meetings with SEIU Local 721 and the Coalition of County Unions concerning the development of the draft Trust Plan document. We plan to reach consensus on the provisions of the Trust prior to submission to your Board for approval.

The CEO recognizes that the recommendations made by the Joint/Labor Management Committee are a "first step" to mitigate the cost of future retiree health insurance by establishing a tax exempt Trust pursuant to California Government Code,

² This recommendation is not in the CCU report

Each Supervisor
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sections 31694.3 and 31694.4. However, the Committees' recommendations do not address any significant cost mitigation efforts such as plan design changes or other efforts to "control the cost of future retiree health insurance."

The effort to address mitigation of on-going costs was deferred to the 2009-2012 fringe benefit negotiations. As such, your Board should be made aware that much work needs to be done regarding controlling future retiree health insurance costs.

STATE OF CALIFORNIA

On December 28, 2006, Governor Schwarzenegger established, by Executive Order S-25-06, the Public Employee Post-Employment Benefits Commission to propose ways to address unfunded post-employment benefits for employees. By January 1, 2008, the new Commission must send a report to the Governor and Legislature that will:

- Identify the full amount of post-employment health care and dental benefits for which California governments are liable and which remain unfunded;
- Evaluate and compare various approaches for addressing governments' unfunded retirement health care and pension obligations; and
- Propose a plan to address governments' unfunded retirement health care and pension obligations.

Once the Commission's OPEB Report has been issued, the CEO will review and analyze the report and provide your Board with an update identifying the Commission's major recommendations.

WTF:DL:JA
DLW:rl

Attachments

c: Mark Saladino, Treasurer-Tax Collector
Tyler McCauley, Auditor Controller
Greg Rademacher, LACERA
Annelle Grajeda, General Manager, SEIU Local 721
Blaine Meek, Chair, Coalition of County Unions



SEIU, LOCAL 721 JOINT LABOR MANAGEMENT RETIREE HEALTH COMMITTEE

500 W. Temple Street, 526 KH Hall of Administration, Los Angeles, CA 90012

Management Committee

Don Washington, Chair
Chief Executive Office

Wayne Willard
Chief Executive Office

Ed Corser
Chief Executive Office

John Naimo
Auditor-Controller's Office

Doug Baron
Treasurer-Tax Collector

Kirstin Poirier-Whitley
Tax and Employee Benefit
Counsel (Jones Day)

July 26, 2007

To: William T Fujioka
Chief Executive Officer

From: Donald L. Washington, Chair
SEIU, Local 721 Joint Labor Management Retiree Health Committee

INTERIM STATUS REPORT AND RECOMMENDATIONS OF THE SEIU, LOCAL 721 JOINT LABOR MANAGEMENT RETIREE HEALTH COMMITTEE

SEIU, Local 721 Union Committee

Charles Hamson, Vice Chair

Ramon Rubalcava

Norm Johnson

Lupe Figueroa

Carolyn Lawson

Keenan Sheedy

The SEIU, Local 721 Joint Labor Management Retiree Health Committee (Committee), submits the following recommendations as a "first step" to mitigate the cost of future retiree health insurance. The Committee's interim status report is made pursuant to the provisions of Article 5, Retirement, Section 14, of the 2006-2009 SEIU Local 721 Fringe Benefit Memorandum of Understanding. Other short and long-term retiree health recommendations will be discussed as the Committee continues to meet to review developments in this area. The Committee will provide a second interim status report on retiree health to the Chief Executive Officer on July 1, 2008.

Summary of Recommendations

- The County of Los Angeles should replace its current pay-as-you go method of funding retiree health insurance and benefits (OPEB liabilities) for current employees and retirees.
- The Committee supports the concept of "pre-funding" future retiree health costs and will work with the County of Los Angeles to establish a tax-exempt funding vehicle (Trust) to irrevocably deposit funds for the payment of retiree health benefits including, health insurance, vision, dental, life insurance and other post-retirement benefits.
- In support of the June 18, 2007 Board Motion, the Committee recommends that the Board/CAO develop a fiscal policy to pre-fund retiree health benefits.

- SEIU Local 721 will work with the County to meet the requirements of AB 2863 (Government Code Section §31694.4) including, but not limited to, "funding pursuant to the provisions of a ratified collective bargaining agreement".
- The Committee recommends that a Trust be established in accordance with Government Code Section §31694.3 and §31694.4, that will be tax exempt either under Internal Revenue Code Section 115 or as an integral part of the County under the doctrine of intergovernmental tax immunity, and that will satisfy other statutory requirements and regulations, including any ordinance, and/or resolution required by the Board of Supervisors.
- The Committee supports the concept of contracting with LACERA (Board of Investment/Board of Retirement) as trustee to invest and administer the Trust assets, as provided for in Government Code Section §31694.3.
- The Committee supports extending the term for the Committee to September 30, 2009, to enable them to continue development of additional recommendations to reduce and mitigate the cost of future retiree health insurance, subject to applicable meet and confer requirements.
- The Committee recommends that during 2009 Fringe Benefit Negotiations, the parties consider proposals to establish a permanent labor-management committee to address on-going cost and mitigation of retiree health insurance.

Background Information

During 2006-2009 fringe benefit negotiations with SEIU Local 660 and the Coalition of County Unions, the Chief Executive Officer directed County management's bargaining team to negotiate a provision in the SEIU Local 660 and Coalition of County Unions (CCU) Fringe Benefit Memoranda (MOU) to address the issue of mitigating the cost of future retiree health insurance.

On September 30, 2006, the County and SEIU Local 660 reached tentative agreement on a successor 2006-2009 Fringe Benefit MOU which provided for the establishment of a Joint Labor-Management Retiree Health Committee. The purpose of this Committee is to "develop and make joint labor-management recommendations to mitigate and control the cost of future retiree health insurance". Committee recommendations are to be submitted to the Chief Executive Officer no later than July 1, 2007. SEIU Local 660 "reserved its right to negotiate any retiree health recommendation that affects wages, hours, and other terms and conditions of employment".

To underscore the importance of the work of the Committee, and the need for the County to control the escalating cost of retiree health insurance for active employees and retirees, David Janssen, Chief Executive Officer, and Sharon Harper, Chief Deputy, Chief Executive Office, met with SEIU Local 660's Bargaining Policy Committee on December 14, 2006. The meeting with SEIU's Bargaining Policy Committee (BPC) was collaborative and the Chief Executive Officer encouraged the joint labor-management committee to develop recommendations for consideration to mitigate future retiree health insurance costs.

Joint Labor Management Retiree Health Committee

On November 21, 2006, the Board of Supervisors approved SEIU Local 660's (now SEIU Local 721) 2006-2009 Fringe Benefit Memorandum of Understanding. Contractual authority for the Labor-Management Retiree Health Committee for SEIU Local 721 is in Article 5, Retirement, Section 14.

Employee Benefit Administration Committee (EBAC-Retiree Health Committee)

The Coalition of County Union's EBAC Committee has met and considered the subject of controlling costs for retiree health insurance. Contractual authority for the Coalition of County Union's (CCU) Fringe Benefit MOU, is contained in Article 8, Choices, Health Insurance.

SEIU Local 721 Labor-Management Retiree Health Committee

Pursuant to Article 5, Section 14, of the 2006-2009 Fringe Benefit MOU, representatives of SEIU Local 721 and County management met on January 16, 2007. Labor and management's designated respective committee members voted to select a Chairman and Vice-Chairman, developed meeting protocols, established agenda development procedures, and meeting dates. The Committee established a collaborative process to review and share information.

LACERA Underlying Actuarial Assumptions to Calculate GASB 43/45 OPEB Liabilities

Initial Committee meetings involved discussions with LACERA representatives Robert Hill, Assistant Executive Director, and Robert Schmidt, Milliman Actuary, regarding the development of LACERA's underlying valuation assumptions for the GASB 45 report. A draft of the underlying assumptions was made available to Local 721, and the Coalition of County Unions, on January 26, 2007. During the course of the initial meetings, Local 721's actuaries (Rael & Letson), LACERA's actuary (Milliman), and representatives from the Compensation and Policy Division reviewed the technical details regarding the

valuation study. Final agreement was reached by all parties, including the actuaries and consultants on LACERA's actuarial assumptions late in February 2007.

AB 2863 /Government Code Section § 31694-31694.5

In April 2007, the Committee reviewed the provisions of AB 2863, Government Code Section §31694.4, which requires that "funding for a trust shall be subject to a ratified collective bargaining agreement". Local 721 committee representatives indicated that they would notify the County regarding the Union's internal ratification process.

Local 721 union counsel, Bill Sokol, provided the Committee with a general overview of what other jurisdictions were considering regarding retiree health issues in light of GASB 43/45 reporting and disclosure requirements. Mr. Sokol advised that the parties should take a cautious and measured approach to retiree health issues and that there were various approaches that could be taken. County tax and employee benefit consultant Kirstin Poirier-Whitley presented on the legislative development and drafting of the provisions of AB 2863. The committee agreed to work together to meet the requirements of Section 31694.4.

Discussion of Funding Vehicle for Retiree Health

In May of 2007, Kirstin Poirier-Whitley provided the Committee with an overview of two types of tax-exempt trust vehicles for retiree health. Ms. Whitley distributed handouts that explained the general legal requirements for the Integral Part Entity and Section 115 funding vehicles, and in particular, requirements necessary for the trust vehicles to have tax-exempt status. Ms. Whitley explained the County's need for a trust vehicle that is "tax-exempt" and that provides maximum administrative flexibility for operating the trust. The Committee representatives expressed their interest and expectation of being informed and involved in the drafting and preparation of the trust document.

Publication of LACERA GASB 45 OPEB Liability for the County of Los Angeles

The Committee met on June 1, 2007, regarding LACERA's GASB 45 report on the County of Los Angeles' unfunded OPEB liabilities. Local 721 and County management representatives were provided with copies of the report. In a committee discussion, Union counsel, Bill Sokol, on the advice of their actuaries, indicated that the Projected Unit Credit (PUC) method for calculating OPEB liability should be used because it is commonly used in the private sector, appropriate for retiree health purposes, and for

technical reasons, and because the Actuarial Accrued Liability (AAL) is slightly lower than using the Entry Age method. While both the PUC and the Entry Age methods are utilized for calculation of future liabilities, the County has designated use of the Projected Unit Credit (PUC) method to calculate future liabilities for retiree health insurance.

Governance Structure - Trust

At the June 1, 2007, meeting, Ms. Whitley and Mr. Sokol discussed the requirements of §31694.3 and other alternatives under Article 8.6 of the County Employees' Retirement Law. The Committee supports the concept of contracting with LACERA's Board of Retirement/Board of Investment as trustee to invest and administer the assets of a "retiree health trust" in accordance with Government Code Section §31694.3.

Joint Labor-Management Retiree Health Committee

Management Committee

Don Washington, Chair (CEO/Employee Relations)
Wayne Williard (CEO/Compensation and Policy)
Ed Corser (CEO/Finance Division)
John Naimo (Auditor-Controller's Office)
Doug Baron (Treasurer-Tax Collector)
Kirstin Poirier-Whitley, Tax and Employee Benefit Counsel (Jones Day)

SEIU Local 721 Union Committee

Charles Hamson, Vice Chair, Labor consultant
(Spokesperson Labor Retiree Committee)
Ramon Rubalcava, Research and Policy Director, Local 721
Norm Johnson, President, SDPO Association
Lupe Figueroa, Bargaining Policy Committee
Carolyn Lawson, Bargaining Policy Committee
Keenan Sheedy, Chair of the Bargaining Policy Committee
Linda Templeton-Dent, Vice-Chair, Bargaining Policy Committee
Bill Sokol, Union Counsel, Weinberg Roger & Rosenfeld

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SEIU Local 721 Actuaries - Rael & Letson

Michael H. Kaplan, F.S.A., M.A.A.A., E.A.
Jean Vergara, A.S.A., M.A.A.A.

LACERA Actuaries - Milliman

Robert Schmidt, F.S.A., M.A.A.A., E.A.

County Management Actuaries

Buck and Associates

DL:JA:
DLW:rld

Attachment

c: Sharon Harper
Debbie Lizzari
Jim Adams

Status Report – Retiree Health

Section 12

The County will provide LACERA survivor benefits for domestic partners as permitted by State law.

Section 13

The County will provide retiree health insurance for domestic partners and their minor children who receive survivor benefits under LACERA.

Section 14 Joint Labor Management Retiree Health Committee

A Joint Labor-Management Retiree Health Committee shall be established 30 days following Board approval of Local 660's Fringe Benefit MOU. The Committee will consist of five (5) representatives designated by the Union and five (5) representatives designated by management. The Committee shall establish meeting protocols and appoint a Chairman and Vice-Chairman from its members. The Committee will develop and make joint labor-management advisory recommendations to mitigate and control the cost of future retiree health insurance. The recommendations shall be submitted to the Chief Administrative Officer (CAO) no later than July 1, 2007. The CAO shall review the Committee's recommendations and prepare an analysis and report to the Board of Supervisors for review and consideration.

Local 660 reserves its right to negotiate any Retiree Health recommendation that affects wages, hours, and other terms and conditions of employment.

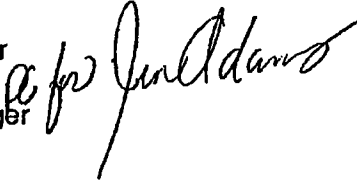
Section 15

The County will implement the provisions of AB 2240 on or before July 1, 2007.

August 13, 2007

To: William T Fujioka
Chief Executive Officer

From: Jim Adams, Sr. Manager
Employee Relations



**INTERIM STATUS REPORT AND RECOMMENDATIONS OF THE JOINT LABOR
MANAGEMENT EMPLOYEE BENEFIT ADMINISTRATION COMMITTEE (EBAC) RETIREE
HEALTH SUBCOMMITTEE**

The EBAC Retiree Health Subcommittee (Committee), submits the following recommendations as a "first step" to mitigate the cost of future retiree health insurance. The Committee's interim status report is made pursuant to the provisions of Article 8, Choices Plan, Section 3, of the 2006-2009 Coalition of County Unions (CCU) Fringe Benefit Memorandum of Understanding (MOU). Other short and long-term retiree health recommendations will be discussed as the Committee continues to meet to review developments in this area. The Committee will provide a second interim status report on retiree health to the Chief Executive Officer on July 1, 2008.

Summary of Recommendations

- The County of Los Angeles should replace its current pay-as-you go method of funding retiree health insurance and other post-employment benefits (OPEB) liabilities for current employees and retirees.
- The Committee supports the concept of "pre-funding" future retiree health costs and will work with the County of Los Angeles to establish a tax-exempt funding vehicle (Trust) to irrevocably deposit funds for the payment of retiree health benefits including, health insurance, vision, dental, life insurance and other retiree health benefits.
- The CCU will work with the County to meet the requirements of AB 2863 (Government Code Section §31694.4) including, but not limited to, "funding pursuant to the provisions of a ratified collective bargaining agreement".
- The Committee recommends that a Trust be established in accordance with Government Code Section §31694.3 and §31694.4, that is tax exempt under Internal Revenue Code Section 115.
- The Committee supports the concept of contracting with LACERA (Board of Investment/Board of Retirement) as trustee to invest and administer the Trust assets, as provided for in Government Code Section §31694.3.

Summary of Recommendations (cont'd)

- The Committee supports extending the term for the Committee to September 30, 2009, to continue development of additional recommendations to reduce and mitigate the cost of future retiree health insurance, subject to applicable meet and confer requirements.
- The Committee recommends that during 2009-12 Fringe Benefit negotiations the parties consider proposals to establish a permanent labor-management committee to address mitigation of on-going costs of retiree health insurance.

Background Information

During 2006-2009 fringe benefit negotiations with the CCU, the Chief Executive Officer directed County management's bargaining team to negotiate a provision in the CCU Fringe Benefit MOU to address the issue of mitigating the cost of future retiree health insurance.

In December 2006, the County and the CCU reached tentative agreement on a successor 2006-2009 Fringe Benefit MOU which established an EBAC Retiree Health Subcommittee. The purpose of the Committee was to "develop and make joint recommendations to mitigate and control the cost of future retiree health insurance". These joint recommendations were to be submitted to the Chief Executive Officer; however, the CCU "reserved its right to negotiate any Retiree Health recommendation that affects wages, hours, and other terms and conditions of employment".

David Janssen, Chief Executive Officer, met with the CCU on January 17, 2007, to underscore the importance of the work of the Committee and the need for the County to control the escalating cost of retiree health insurance for active and retired employees. The meeting with the CCU was collaborative and the Chief Executive Officer encouraged the Committee to develop recommendations for consideration to mitigate future retiree health insurance costs.

EBAC Retiree Health Subcommittee

On December 19, 2006, the Board of Supervisors approved the CCU 2006-2009 Fringe MOU providing the contractual authority for the EBAC Retiree Health Subcommittee contained in Article 8, Choices Plan, and Section 3. A draft of the underlying actuarial assumptions to calculate GASB 43/45 OPEB liabilities was forwarded to the CCU January 26, 2007. The Committee has met and considered the subject of controlling costs for retiree health insurance.

William T Fujioka
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Discussion of Funding Vehicle for Retiree Health

In May 2007, the Committee considered provisions of AB 2863, Government Code Section §31694.4, which requires that "funding for a trust shall be subject to a ratified collective bargaining agreement". Attorney Kirstin Poirier-Whitley of the law firm of Jones/Day provided the Committee with an overview of two types of tax-exempt trust vehicles for retiree health. Ms. Whitley distributed handouts regarding Integral Part Entity and Section 115 funding vehicles and explained the general legal requirements for trust vehicles to have tax-exempt status. Ms. Whitley also explained the County's need for a trust vehicle that was "tax-exempt" and provided the maximum administrative flexibility for operating the trust.

The Committee representatives expressed their interest and expectation of being involved in the drafting and preparation of the trust document. The Committee also supports LACERA's Board of Retirement/Board of Investment to administer a "retiree health trust" in accordance with Government Code Section §31694.3.

Publication of LACERA GASB 43/45 OPEB Liability for the County of Los Angeles

The CCU and County management representatives were provided with copies of the LACERA's GASB 43/45 report on the County of Los Angeles' unfunded OPEB liabilities on June 1, 2007.

WTF:DL:JA
PDC:mlj

c: Sharon Harper
Debbie Lizzari